



BANCA D'ITALIA
EUROSISTEMA

Annual meeting of the Italian Association of Insurance Companies (ANIA) 2024

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Rome, 2 July 2024

Distinguished Authorities, Ladies and Gentlemen,

I am delighted to have been given the opportunity to attend the Association's Annual Meeting again this year, and I thank President Farina for the invitation.

A few days ago, at the presentation of the Report on the activities of IVASS, I made a few remarks on the trends in the insurance market, giving an account of the positive results achieved overall by the industry in 2023 (profit improvement, capital strengthening, liquidity management), as well as of the risks to be managed, with a forward-looking approach. I then looked at the highlights of the year. I recalled with satisfaction the successful resolution of the Eurovita crisis, and emphasised the various steps forward that have been taken on the regulatory front, as well as the commitment still needed from all the actors involved to complete the journey. I also gave an assessment of the Solvency II reform, highlighting both the aspects that we consider positive, and those on which we have expressed reservations during the long negotiations. Finally, I mentioned a list of further issues to be addressed, some of them long-standing.

I shall come back towards the end to some of the topics discussed on 24 June, specifically three of them, to offer some further insights. However, I would first like to focus – keeping my speech, as usual, on a very concrete level – on three other topics that seem to me to be of interest to the market and to industry players: distribution, technology and (more briefly) governance.

1. The topic of distribution is high on the European and national regulatory agendas.

A year ago, I made some remarks on the work in progress at European level within the Retail Investment Strategy (RIS) agenda, expressing the hope that a good compromise would be found between the demands for legal protection of consumers and the risks of excessive complexity and rigidity, and of excessive regulatory interventionism. I also hoped that instruments based on competition and transparency would be enhanced, including in the regulatory sphere. Under the Belgian Presidency, a compromise text

has been achieved over the last few days that differs significantly from that proposed by the Commission. On the subject of inducement, there is basically a return to the rules currently in force, to which strengthened procedures are added to ensure that products are tailored to the customer and in their best interests. Benchmarks have become mere tools for supervision; however, the enforcement mechanism remains complex and does not entirely dispel doubts about costliness and possible distorting effects. As far as multi-option products are concerned, it is, in our view, certainly appropriate, for the sake of transparency, to maintain the obligation to disclose the costs of the insurance contract in the documentation provided to the customer. This rule should not be rendered ineffective by too many exceptions. We shall follow developments in the “trialogue” phase.

The transposition of the RIS package, which will in any case require significant changes to the Italian Private Insurance Code, may provide an opportunity for a broader review. This, in our view, should pursue two main objectives: firstly, to complete the streamlining and simplifying of requirements that has already begun with the secondary regulations falling within IVASS’ competence, with a view to providing substantial rather than formal protection; secondly, to adapt the rules on distribution to market developments. Today, the relationships between companies, intermediaries and clients are in fact much more complex than at the time when the current provisions were introduced. Among other things, it is nowadays difficult to pigeon-hole every intermediary into the rigid categories provided for therein.

2. On the subject of technologies (machine learning, artificial intelligence), I must first of all recall that, in applying them, the insurance industry needs to pay attention to the protection of people’s rights, and guard, among other things, against the risk of abuse in terms of confidentiality and unfair discrimination. Moreover, like other key players in the financial system, insurance operators must equip themselves effectively against the risk of falling victim to cyber-attacks, or even just serious malfunctions, which could have systemic repercussions. It is no longer just an issue of ethical necessity, social responsibility or good management: as is well known, it is about to become a set of specific legal obligations.

The Artificial Intelligence Act (AI Act) is going to have a significant impact on the insurance industry. Among companies’ AI systems, those that are classified ‘at high risk’ will be subject to specific governance safeguards and checks on their use. Transparency obligations will apply to all systems. The AI rules will need to be harmonised with the overall regulatory framework of the insurance industry, including Solvency II and the Insurance Distribution Directive.

The Digital Operational Resilience Act (DORA), which is to be fully implemented from 17 January next year, will require companies to take appropriate measures to protect themselves against cyber threats. The current framework of European and Italian prudential regulations already contains certain safeguards for cyber risk management, e.g. in the area of governance and the outsourcing of functions. The new regulation, however, raises the level of protection and sets out a more detailed and harmonised framework between the banking, insurance and financial sectors. The obligation to

report serious incidents to the authorities, which will also have supervisory powers over critical service providers, will be made more stringent. IVASS is planning initiatives to accompany the system on the road to compliance. We shall soon be launching a survey to help companies assess their level of preparedness.

With the entry into force of DORA, systemically important firms will have to undergo Threat-Led Penetration Tests (TLPTs) on at least a three-year basis; the authorities will have to monitor their execution. Since 2018, the European Central Bank has been promoting a coordinated EU-wide TPLT (TIBER-EU), which so far has only been activated on a voluntary basis. The Bank of Italy, IVASS and Consob published the national TIBER-IT guide in 2022. IVASS encouraged insurance companies to carry out the tests even before the entry into force of DORA, thus preparing themselves in good time. Two tests have been planned: one is nearing completion, the other has begun.

Having said that, by pointing out the risks that may be encountered and the rules that must be complied with, I would not want my words to give the impression that the Authority sees technological progress as a threat. On the contrary: I do not need to underline the importance of a considered adoption of new technologies, the development of which has accelerated in recent times. If exploited actively, intelligently and responsibly, the ability to process large amounts of data can be a powerful tool to improve process efficiency, product customisation and insurance risk management, in the interests of the companies themselves, of intermediaries and of customers.

3. The composition and standing of corporate bodies are fundamental safeguards for sound and prudent management. In terms of governance, IVASS is paying close attention to the functionality of administrative bodies, with the aim of ensuring their quality and authoritativeness, promoting diversity and internal dialogue, and encouraging a pluralism of contributions and informed decision-making.

On-site inspections allow us to assess the actual effectiveness of governance. Inspections are a complement to the careful off-site scrutiny of the implementation of the eligibility requirements envisaged under the law for taking on roles, and of the collective composition of the strategic, administrative and supervisory bodies of companies. Fulfilling the provisions of Ministerial Decree 88/2022 in a careful and substantive manner requires – in the interests of companies and their shareholders – looking to the substance and not just the form.

Finally, I would like to return, in more detail, to some of the topics discussed during the presentation of the Report.

4. On that occasion, I underlined the need for action on the national accounting framework and the proposals made by IVASS to that effect, while broader revision projects in harmony with international accounting standards are expected.

In 2023, all Italian parent companies applied the IFRS 17 standards in their consolidated accounts for the first time. This standard governs the presentation, assessment and

disclosure rules for insurance contracts. Most companies also applied IFRS 9, which defines the accounting policies for financial instruments. The investment made in view of the adoption of these standards, especially IFRS 17, has been considerable. The latter has improved the transparency of information on the expected future profits of multi-year insurance policies by, among other things, requiring companies to provide adequate details for understanding the change in insurance liabilities from one year to the next. We expect that refinements to the procedures and methodologies will continue to be made, also in light of the increased experience in the application.

5. On the same occasion, I also mentioned some of our ideas for the future of the life sector.

We expect companies to reflect carefully on their contractual models; dialogue on the subject is open. A set of interventions on primary legislation is certainly needed in the future; but there is no doubt that an important element of the agenda is updating the secondary legislation lying within the competence of IVASS.

This process, which has started in recent years, has proved to be longer and more complicated than expected. We had to take into account not only the substantive comments received on an initial draft regulation of index- and unit-linked products – comments, on which it was necessary to reflect in depth –, but also the experience gained in the meantime in an extremely turbulent macroeconomic framework.

Three months ago, we launched a second public consultation on index- and unit-linked products. We have modified our proposals, also based on comments received earlier. We have diversified the investment limits of internal funds according to the characteristics of the unit-linked products linked to them and of the policyholders who can subscribe them. Specifically, this involved providing for higher investment limits for certain types of assets, subject to certain conditions, such as the amount of the premium, the consistency of the investment horizon with the liquidity of the assets, and the client's knowledge. We have revised the draft regulation on management fees and demographic guarantees, making the scope of the associated risk assessment clearer; this is to be correlated to the policyholder's coverage needs.

At the same time, we launched another consultation, concerning a change in the rules on separately managed accounts to which with-profit life contracts are linked. The intervention aims to complete the 2018 reform by, among other things, extending the 'profit fund' mechanism introduced to existing contracts at that time. The possibility of using the latter for ongoing contracts, on a consensual basis, aims to increase the management flexibility of companies by promoting the offer of with-profit policies.

The two consultations ended on 27 May. Once again, we received many comments, for which we thank the participants. The innovations introduced were generally well received. Most of the comments focused on two issues: for the first consultation, the possibility of applying national rules, specifically to investment limits and demographic guarantees for unit-linked products, to EU companies operating in Italy under the freedom to provide

services or the freedom of establishment; for the second, how to obtain the policyholder's consent for the extension of the 'profit fund' mechanism. We are considering these two issues, also based on the standards and practices established in other European markets, and we shall soon make our evaluations public.

6. Finally, I think it is worth mentioning a couple of important issues that have arisen in the area of non-life insurance products.

In the area of property risks, following reports from associations representing agents and brokers we have recently detected cases where contracts included clauses giving the insurer the right to change the conditions unilaterally during the term of the contract, or at the time of tacit renewal. We opened a discussion with the companies involved. For some risks, such as those relating to climate change, there are issues of technical sustainability that need to be taken into account. However, while no specific sectoral regulation exists, companies will need to ensure compliance with certain minimum conditions, in accordance with the consumer code, case law and general principles of good faith. At the very least, contracts must provide for the customer's express acceptance of the clause, its application only in the presence of a justified reason indicated in the contract (which cannot, in any case, legitimise changes that are of a nature to alter the contractual balance), and – especially for ongoing contracts – compensation mechanisms in favour of the customer or an exit option that is free of charges and expenses. The proposed changes should also be announced and explained to policyholders sufficiently in advance, so that customers can make fully informed choices. Another essential condition for the validity of such clauses is the customer's full awareness of their actual scope. Further investigations are in progress. We understand that some companies are already considering a review of this practice. We invite all companies to consider the matter carefully.

In the area of motor third party liability, the Price Monitoring Early Warning Commission met again a few days ago. A stocktake was conducted of the proposals put forward to make the market more efficient by the various parties involved (companies, distributors, consumers, repairers and claims appraisers). The government side stated its intention to introduce certain initial measures in the Competition bill, soon to be submitted to the Council of Ministers. Such measures include provisions on the transferability of certain key data contained in the black box, an issue on which I focused only a few days ago.

Ladies and Gentlemen,

It has once again been a challenging year, for both the supervisor and the insurance companies.

In concluding, I wish to reiterate my appreciation for the contribution made by companies, acting both individually and together, to the significant results achieved.

As I recalled a few days ago, the role of a number of major insurance companies was decisive, along with that of all the other public and private actors, in the successful

resolution of the Eurovita case, in which they demonstrated a sense of responsibility, pragmatism and far-sightedness.

With ANIA, which has once again kindly hosted us today, the dialogue on all the issues addressed during the year has always been open and constructive, despite the diversity of roles and at times, as is natural, of opinions. This relationship remains valuable, because good results arise from the richness of debate and the depth of reflection. I am counting on our collaboration to continue just as effectively in the future, however the institutional setup of insurance supervision may develop.

